

## **Submission: Review of RAB-based irrigation prices (2027–29)**

**To: Queensland Competition Authority (QCA)**

Dear Sir/Madam,

I, Lucia Philip, am writing as an avocado grower in the Bundaberg region and as a Director of both Avocados Australia and Bundaberg Fruit and Vegetable Growers.

From both a grower and industry perspective, I strongly oppose any move to a Regulated Asset Base (RAB) model and support the continuation of the current Renewals Annuity framework.

This is not a minor pricing adjustment, it is a fundamental shift that will impact the long-term cost of water, business confidence, and the viability of irrigated agriculture.

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### **Position**

**I do not support the adoption of a RAB model** and strongly advocate for the continuation of the **Renewals Annuity framework**.

It supports the current approach due to its stability, transparency, and alignment with Lower Bound Pricing principles.

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### **Key Concerns with a RAB Model**

#### **1. Intergenerational Inequity**

A RAB framework shifts costs into the future, allowing current users to benefit from infrastructure without fully contributing to its replacement.

- Under a RAB, costs are recovered after expenditure, meaning future irrigators may bear a disproportionate burden as the asset base grows
- By contrast, the current annuity model ensures funds are accumulated in advance, spreading costs more equitably over time

This creates a clear intergenerational equity issue and undermines long-term sustainability.

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#### **2. Higher Long-Term Costs to Irrigators**

While a RAB model may appear cheaper in the short term, evidence indicates:

- Costs are deferred initially but increase over time as new projects are added
- Prices may ultimately exceed those under the annuity model due to:
  - Depreciation
  - Return on assets (WACC)

This “pay later + return” structure increases the total cost paid by irrigators over the life of the assets.

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### 3. Artificial Return and Profit Generation

A RAB introduces a **regulated rate of return (WACC)** on infrastructure:

- Irrigators effectively pay interest on assets at a rate higher than Sunwater’s actual borrowing costs
- This creates a margin or “profit” component embedded in water pricing

This is inconsistent with the intent of cost recovery under Lower Bound pricing principles.

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### 4. Introduction of Tax-Equivalent Charges

The inclusion of a “tax allowance building block” raises significant concern.

- Under a RAB:
  - Capital expenditure may attract tax-equivalent payments to the State Government
- Under the current annuity model:
  - Expenditure is treated as operational and fully deductible

Irrigators should not be exposed to **additional tax-equivalent charges through water pricing**.

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### 5. Risk of Gold Plating

A RAB framework inherently incentivises increased capital expenditure:

- Returns are linked to the size of the asset base
- This creates a risk that infrastructure is overbuilt or over-specified

Importantly, a RAB does **not adequately protect irrigators from “gold plating”**, as returns are effectively guaranteed.

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### 6. Reduced Transparency and Predictability

The Renewals Annuity model provides:

- Long-term planning (typically 30 years)
- Early visibility of future works and costs
- Smooth and predictable price paths

In contrast, a RAB:

- Has shorter-term planning horizons
- Introduces step changes in pricing following capital works

- Reduces visibility and predictability for irrigators

This undermines business planning and investment confidence.

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### **Suitability for Irrigation Schemes**

A Renewals Annuity approach is best suited to long-life assets such as dams and channels.

This remains highly relevant, as irrigation schemes are characterised by:

- Long asset lives
- Predictable refurbishment cycles
- Stable demand profiles

A RAB model is therefore not well suited to this asset class.

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### **Conclusion**

The Renewals Annuity framework:

- Provides **stable and predictable pricing**
- Supports **long-term planning and transparency**
- Ensures **equitable cost sharing across generations**
- Aligns with **Lower Bound pricing principles**

In contrast, a RAB model introduces:

- Higher long-term costs
- Intergenerational inequity
- Incentives for over-investment
- Additional financial burdens through returns and tax equivalents

For these reasons, **I strongly recommend that the current Renewals Annuity framework be retained.**

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**Kind Regards**

**Lucia (Lucy) Philip**

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